

Cut Universal Service Subsidies

Heritage Recommendation:

Eliminate telecommunications subsidies for rural areas, phase out the schools and libraries subsidy program, and reduce spending on the Lifeline program by reducing fraud and waste.

Although this proposal will have no impact on the budget deficit, it will save taxpayers approximately \$9.3 billion annually, and \$92.7 billion in taxes and fees over 10 years, since these programs are supported by fees.

Rationale:

The Universal Service Fund (USF) was created in 1996 to replace a system of implicit subsidies administered by telephone companies. Run by the Federal Communications Commission (FCC) through the Universal Service Administrative Corporation, the program is financed by a dedicated fee paid by all telecommunications service users. The program funds a number of subsidy programs, including those for rural telephone companies, schools and libraries fund, and for low-income consumers:

- The “high-cost fund,” which cost \$4.17 billion during the 2013 funding year, largely supports rural areas where the cost of providing telecom connections is high. Under reforms adopted by the FCC in summer 2014, the USF, which traditionally subsidized rural phone companies, will be replaced by a new fund focusing on rural broadband and wireless service. Even after that reform, however, the program will remain fundamentally flawed, because it provides federal cash regardless of need. Residents of Aspen, Colorado, and Jackson Hole, Wyoming, for instance, receive support regardless of need at the expense of poorer Americans elsewhere. The program should be ended.
- The schools and libraries (E-Rate) fund—which, based on increases approved by the FCC in December 2014, now costs \$3.9 billion per year—was originally intended to finance the connection of schools and libraries to the Internet.⁴⁷ For the most part, that task was completed years ago. But rather than declare victory, the program has been expanded to fund other Internet-related goods and services. This program is not needed. If any federal funding is needed by schools, it should be managed by the Department of Education—not the FCC—and should compete with other education priorities.
- The “Lifeline” fund provides discounted phone service and equipment to low-income Americans. While well-intended, the program has been plagued by fraud and abuse, as costs tripled from under \$600 million in 2001 to almost \$1.8 billion in the 2013 funding year.⁴⁸

Additional Reading:

- Diane Katz and Luke Welch, “The FCC’s Universal Service Folly,” *The Daily Signal*, November 8, 2011, <http://dailysignal.com/2011/11/08/the-fcc%E2%80%99s-universal-service-foolly>.
- Matthew Sabas, “Obamaphones: Rife with Waste, Fraud and Abuse,” *The Daily Signal*, November 24, 2013, <http://dailysignal.com/2013/11/24/obamaphones-rife-waste-fraud-abuse/>.
- Adi Robertson, “FCC Approves Multibillion-Dollar Push to Put Wi-Fi in Schools and Libraries,” *The Verge*, July 11, 2014, <http://www.theverge.com/2014/7/11/5888059/fcc-approves-e-rate-reform-proposal-2014>.



Calculations:

Taxpayer savings were calculated by adding the costs of the high-cost fund and the schools and libraries fund, along with the proposed \$1.2 billion reduction in the Lifeline fund. High-cost spending of \$4.17 billion is found on page 35 of Universal Service Administration Company, *2013 Annual Report*,

http://usac.org/_res/documents/about/pdf/annual-reports/usac-annual-report-Interactive-Layout-2013.pdf.

Schools and libraries fund costs are found at news release, “FCC Continues E-Rate Reboot to Meet Nation’s Digital Learning Needs,” FCC, December 11, 2014,

<http://www.fcc.gov/document/fcc-continues-e-rate-reboot-meet-nations-digital-learning-needs>. Lifeline program costs are found on page 8 of Universal Service Administration Company, *2001 Annual Report*,

http://www.usac.org/_res/documents/about/pdf/annual-reports/usac-annual-report-2001.pdf.